

Draft Budget

1.1 Mayors Report

It gives me great privilege to present the 2018/19 Draft Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budgeting for 2018/19 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on the 30 August 2017. National Treasury's MFMA Circular No. 89 and 91 were used to guide the compilation of the 2018/19 MTREF budget. The main objective of a municipal budget is to allocate realistically anticipated resources to the service delivery goals identified as priorities in the Integrated Development Plan. The Minister of Finance promulgated Government Gazette No 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), effective 01 July 2017. The objective of the regulation is to improve compliance with budget regulations and accounting standards; better inform national policy coordination and reporting; benchmarking and performance measurement and application of regulations to all municipalities. In line with mSCOA Regulations the municipality went live on 01 July 2017 based on the mSCOA Release Version 6.1. Although the core financial system is currently fully operational and functional, there still remain some material issues and constraints to achieve full mSCOA compliance.

The Municipality is faced with various challenges; which among them include; a culture of non-payment for rates and service charges by customers due to unemployment and other circumstances which results in the Municipality being grant dependant. Having said this; the Municipality is in a process of developing a Revenue Enhancement Strategy that will also assist the Municipality in addressing this challenge.

The detail of the Draft Annual Budget is presented in the schedules attached to this report.

1.2 Final Budget Related Resolutions

Below are the resolutions that must be approved by council with final adoption of the 2018/19 budget.

- a. That the final budget for 2018/2019 and the indicative 2 outer financial years 2019/2020 and 2020/2021 **be approved** as set out in the following budget tables:-

- 1.1 Table A1 Budget Summary
- 1.2 Table A2 Budgeted Financial Performance by Standard Classification
- 1.3 Table A3 Budgeted Financial Performance by Vote
- 1.4 Table A4 Budgeted Financial Performance – Revenue by Source and Expenditure by type
- 1.5 Table A5 Budgeted Capital
- 1.6 Table A6 Budgeted Financial Position
- 1.7 Table A7 Budgeted Cash Flows
- 1.8 Table A8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation
- 1.9 Table A9 Asset management

1.10 Table A10 Basic Service Delivery Measurement

- b. That the Draft Tariffs for Property Rates and other Service Charges **be approved** as indicated below.
- c. That the final Capital Projects **be approved** as indicated below.
- d. That the draft budget **be approved**.

1.3 Budget Related Policies

That it be noted that the reviewed budget related policies will be tabled with the final budget.

1.4 Executive Summary

Section 16 (1) of the MFMA; Act 56 of 2003 states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year. Section 16 (2) of the MFMA; Act 56 of 2003 states that; in order for the municipality to comply with subsection (1); the Mayor of the Municipality must table the annual budget at council meeting at least 90 days before the start of the financial year. Section 17 of the MFMA; Act 56 of 2003 states that an annual budget of the municipality must be a schedule in the prescribed format:-

- a. Setting out realistically anticipated revenue for the budget year from each revenue source.
- b. Appropriating expenditure for the budget year under the different votes of the municipality;
- c. Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- d. Setting out-
 - (i) Estimated revenue and expenditure by vote for the current year; and
 - (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (iii) A statement contained any other information required by section 215(3) of the constitution or as may be prescribed
- e. An annual budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

The grants from national and other spheres of government as gazetted in DoRA have declined significantly and it is critical that the municipality reprioritise expenditure and implement strict cost containment measures. Measurable performance objectives and indicators are detailed in the Draft IDP. The main challenges that were experienced during compilation of the 2018/19 MTREF budget can be summarised as follows:-

- Significant decline in Gazetted Grants;

- The need to reprioritise projects and expenditure within available resources given the cash flow realities and declining cash position of the municipality;
- Employee related costs that have increased drastically beyond the equitable share allocation.

In view of the aforementioned; the following is the table depicting the overview of the 2018/19 budget and MTREF.

R thousands	2017/18 Original Budget	2017/18 Adjustment	2018/19	2019/20	2020/2021
Total Revenue (Before Capital Transfers)	257 765 819	259 604 384	207 219 706	201 613 462	213 560 940
Total Expenditure	225 620 519	253 811 704	235 019 706	252 166 994	271 468 413
Capital Transfers	32 145 300	34 957 360	31 452 300	36 332 050	40 859 200

The total revenue excluding capital transfers has declined to R207m for the 2018/19 budget when compared to 2017/18 adjusted budget of R259m; this is due to a decline in grants and subsidies anticipated coupled with declining collection trends. The operating expenditure has declined to R235m for 2018/19 budget when compared to R253m due to a decline in municipal revenue. The municipality needs to further reprioritise the expenditure projects to be in line with available resources.

1.5 Overview of assumptions used

The assumptions used were guided by MFMA Circular 89 and 91 issued by National Treasury for compilation of 2018/19 MTREF budget. The following assumptions were used:-

- Collection rate for revenue services; taking into consideration the current economic conditions.
- Inflation outlook as indicated in the table below:-

Table 1: Macroeconomic performance and projections, 2017 - 2020 Fiscal year	2017/18	2018/19	2019/20	2020/21
Estimate	Forecast			
Consumer Price Inflation (CPI)	5.3%	5.3%	5.4%	5.5%
Real GDP growth	1.0%	1.5%	1.8%	2.1%

- **Bulk electricity** costs have increased by 7.32% in line with Treasury guidelines
- **Tariffs** for property rates and all other service charges will increase in line with National Treasury guidelines.
- **Employee related costs** will be increased in line with the South African Local Government Bargaining Council; however the *Salary and Wage Collective Agreement* for the period 01 July 2015 to 31 June 2018 has come to an end and the process is still under consultation. Remuneration of councillors will increase in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act.

1.6 Overview of budget funding

In a Circular issued by National Treasury for compilation of the 2018/19 MTREF budget they highlighted that the economic challenges will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for revenue projections and that municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures. The funding of the annual budget has been calculated taking into account the following:-

- Rates and Service Charges
- Interest on outstanding debtors
- Interest expected to be received from investments
- Grants as guided by the division of revenue act

1.7 Operating Revenue Framework

Section 18 (1) of the MFMA states that the annual budget may be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget. Furthermore section 18 (2) states that revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. Below is the table reflecting the summary of budgeted revenue by source.

Table: 1 (Revenue by source)

EC124 Amahlathi - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue By Source											
Property rates	2	8,795	15,841	14,013	16,771	16,771	16,771	-	17,659	18,613	19,637
Service charges - electricity revenue	2	24,140	33,440	28,867	41,770	42,270	42,270	-	45,161	47,037	49,624
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	8,003	8,589	9,133	10,032	10,032	10,032	-	10,718	11,297	11,918
Service charges - other		-	121	6	-	-	-	-	-	-	-
Rental of facilities and equipment		1,004	1,002	827	1,004	1,004	1,004	-	5,057	1,115	1,176
Interest earned - external investments		9,245	9,422	8,442	6,800	6,800	6,800	-	6,800	7,167	7,561
Interest earned - outstanding debtors		2,215	2,175	2,302	2,640	2,640	2,640	-	2,640	2,783	2,936
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		253	239	172	53	256	256	-	506	534	563
Licences and permits		-	-	-	-	2,482	2,482	-	2,613	2,754	2,906
Agency services		2,758	3,219	3,052	4,066	1,584	1,584	-	1,668	1,758	1,855
Transfers and subsidies		112,875	131,522	124,982	101,164	102,531	102,531	-	102,915	107,092	113,841
Other revenue	2	1,430	1,217	503	41,320	41,318	41,318	-	1,389	1,464	1,545
Gains on disposal of PPE		-	-	543	-	-	-	-	10,092	-	-
Total Revenue (excluding capital transfers and contributions)		170,716	206,785	192,840	225,621	227,688	227,688	-	207,220	201,613	213,561

Property rates and service charges have been increased in line with National Treasury guidelines. Interest on investments have not been increased from R6.8m when compared to 2017/18 adjustment budget due to a decline in municipal revenue. Operational transfers and

subsidies have slightly increased by R380 thousand when compared to 2017/18 adjustment budget of due to a slight increase in equitable share and other grants. The table below depicts the grants to be received by the Municipality during 2018/19 financial year.

Table: 2 (Grants and subsidies)

EC124 Amahlathi - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		110,742	129,236	117,974	99,964	99,964	99,964	101,715	107,092	113,841
Local Government Equitable Share		105,384	124,034	113,780	95,446	95,446	95,446	97,114	103,450	110,129
Finance Management		1,600	1,600	1,625	1,700	1,700	1,700	1,770	2,235	2,235
Municipal Systems Improvement		936	930	-	-	-	-	-	-	-
EPWP Incentive		1,260	1,056	1,062	1,389	1,389	1,389	1,449	-	-
PMU 5%		1,562	1,616	1,507	1,429	1,429	1,429	1,382	1,407	1,477
Other transfers/grants [insert description]										
Provincial Government:		1,950	2,286	2,314	1,200	2,566	2,566	1,200	-	-
Sport and Recreation		1,105	1,105	1,200	1,200	1,200	1,200	1,200		
LED Promotions		-	350	-	-	-	-			
Waste Grant 2m		195	387	647	-	771	771			
Waste Grant 770k		-	-	297	-	473	473			
Capacity		312	282	-						
Recycling		203								
Vuna Awards		30								
Seta		105	161	170	-	122	122			
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Operating Transfers and Grants	5	112,691	131,522	120,289	101,164	102,530	102,530	102,915	107,092	113,841
Capital Transfers and Grants										
National Government:		25,576	34,611	26,333	32,145	31,916	31,916	31,252	36,332	40,859
Municipal Infrastructure Grant (MIG)		25,576	34,611	21,640	27,145	27,145	27,145	26,252	26,732	28,059
INEG Grant		-	-	4,693	5,000	4,771	4,771	5,000	9,600	12,800
Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Capital Transfers and Grants	5	25,576	34,611	26,333	32,145	31,916	31,916	31,252	36,332	40,859
TOTAL RECEIPTS OF TRANSFERS & GRANTS		138,267	166,133	146,622	133,309	134,446	134,446	134,167	143,424	154,700

1.8 Operating Expenditure Framework

The table below depicts the high level summary of 2018/19 MTREF budget classified per main type of operating expenditure.

Table: 4 (Expenditure by Type)

EC124 Amahlathi - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type											
Employee related costs	2	63,365	75,493	112,135	114,036	114,036	114,036	-	116,182	127,404	140,254
Remuneration of councillors		12,908	13,849	11,561	13,244	13,244	13,244		13,244	14,568	16,025
Debt impairment	3	5,548	11,739	7,916	5,000	5,000	5,000		2,500	5,000	5,000
Depreciation & asset impairment	2	30,237	28,845	29,038	26,000	26,000	26,000	-	28,000	26,000	26,000
Finance charges		22,597	16,370	2,507	100	50	50		50	54	58
Bulk purchases	2	21,588	24,313	26,165	28,000	28,000	28,000	-	30,050	32,249	34,610
Other materials	8	-	-	-	-	-	-		248	262	276
Contracted services		1,325	504	2,593	2,782	29,203	29,203	-	20,666	21,202	22,368
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	62,629	62,244	61,711	36,458	38,279	38,279	-	24,080	25,428	26,878
Loss on disposal of PPE		997	1,784	43,675							
Total Expenditure		221,194	235,142	297,301	225,621	253,812	253,812	-	235,020	252,167	271,468

The employee related costs are projected to increase from R114m to R116m. This is based on the fact that the municipality will conduct job evaluations and embark on a process of organisational reengineering to curb the growth in employee related costs. Remuneration of councillors are projected to remain unchanged at R13m. Bulk Purchases have increased from R28m when compared to 2017/18 adjustment budget to R30m in line with Treasury guidelines. Other expenditure have declined to R24m for 2018/19 budget due to municipal revenue that has declined drastically.

1.9 Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote.

Table: 5 (Capital Expenditure by vote)

EC124 Amahlathi - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding											
Vote Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Single-year expenditure to be appropriated											
Vote 1 - EXECUTIVE & COUNCIL		1,221	57	932	-	583	583	-	-	-	-
Vote 2 - BUDGET & TREASURY OFFICE		1,158	668	26	-	39	39	-	-	-	-
Vote 3 - CORPORATE SERVICES		-	298	511	-	540	540	-	200	-	-
Vote 4 - PLANNING AND DEVELOPMENT		32,138	24,248	22,117	27,145	27,710	27,710	-	26,252	26,732	28,059
Vote 5 - HEALTH		-	-	-	-	-	-	-	-	-	-
Vote 6 - COMMUNITY & SOCIAL SERVICES		2,269	351	-	-	-	-	-	-	-	-
Vote 7 - HOUSING		466	68	690	-	-	-	-	-	-	-
Vote 8 - PUBLIC SAFETY		44	26	-	-	-	-	-	-	-	-
Vote 9 - SPORT & RECREATION		956	-	5	-	-	-	-	-	-	-
Vote 10 - WASTE MANAGEMENT		1,031	1	4,600	-	-	-	-	-	-	-
Vote 11 - ROAD TRANSPORT		143	8,871	1,518	-	40	40	-	-	-	-
Vote 12 - ELECTRICITY		2,886	2,299	5,477	5,000	6,045	6,045	-	5,000	9,600	12,800
Vote 13 - ENVIRONMENTAL PROTECTION	4	-	50	0	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		42,316	36,934	35,875	32,145	34,957	34,957	-	31,452	36,332	40,859
Total Capital Expenditure - Vote		42,316	36,934	35,875	32,145	34,957	34,957	-	31,452	36,332	40,859

The funding for capital projects have declined from R34m to R31m due to a decline in MIG funding and budget constraints in municipal revenue. Amahlathi Municipality is faced with a continuous challenge of underspending in the Municipal Infrastructure Grant which is also affecting the allocation. Better planning is required in this regard to ensure that projects are implemented as planned.